Ontario Northland

Ontario Northland Transportation Commission
2011-2012 Annual Report

www.ontarionorthland.ca

2011-2012 Annual Report

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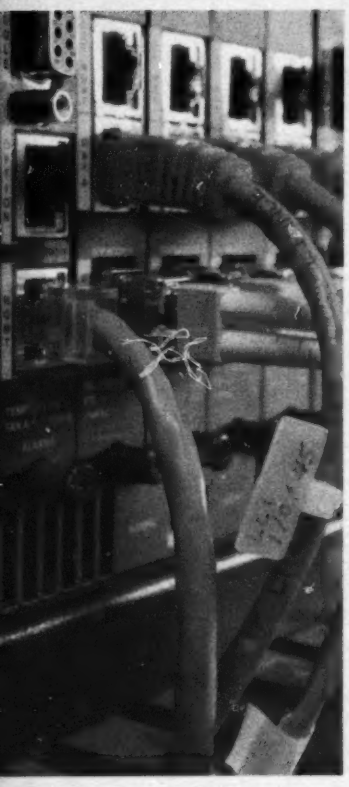

Company Overview

The Ontario Northland Transportation Commission (Ontario Northland), an Agency of the Province of Ontario, was established in 1902 with a mandate to promote sustainable economic growth by establishing and operating transportation and telecommunication links throughout Northern Ontario.

Our Services:

Headquartered in North Bay and operating primarily in Northeastern Ontario, Ontario Northland's non-commercial (provincially-mandated and subsidized) services include:

- The Northlander (passenger train service between Cochrane and Toronto);
- The Polar Bear Express (passenger train service between Cochrane and Moosonee);
- Rail freight services between Cochrane and Moosonee; and
- The Niska I ferry (freight transportation between Moosonee and the island of Moose Factory).

Commercial services include:

- Ontera telecommunications services;
- Rail freight services;
- Refurbishment services;
- Scheduled and charter motor coach services and Bus Parcel Express; and
- The Dream Catcher Express (fall excursion train travelling between North Bay and Temagami).

Corporate Governance

Ontario Northland is an agency of the Government of Ontario. An agency is a provincial government entity that is not organizationally part of a ministry, and:

- is established by government through a constituting instrument (under or by statute, regulation, or order in council);
- is accountable to a minister for fulfilling its legislative obligations, the management of the resources it uses, and its standards for any services it provides;
- where government makes the majority of appointments; and
- with the authority and responsibility granted by the government to perform an ongoing public function or service.

Ontario Northland operates under the Ontario Northland Transportation Commission Act and the Minister of Northern Development and Mines is responsible for administration of the Act. The Act was established in 1902, and was most recently revised in 2006.

Ontario Northland is also governed by a Memorandum of Understanding (MOU). The purpose of this MOU is to set the accountability relationship between the Ontario Northland Transportation Commission and the Ministry of Northern Development and Mines (MNDM). Specifically, the responsibilities of the Minister, Deputy Minister, Chair of the Ontario Northland Transportation Commission, the Board, and the CEO are outlined within the MOU.

Mandate

Our mandate is to provide efficient transportation and telecommunication services in Northern Ontario as directed by the Government of Ontario, through the Minister of Northern Development and Mines;

a) To support and promote, through the services delivered by Ontario Northland, Northeastern Ontario economic development, job creation and community sustainability;

b) Through its services, to support, promote and enhance linkages and clustering between communities within the region and between Northeastern Ontario and other regions;

c) To deliver price-competitive transportation and telecommunication services that are safe, reliable and responsive to customers, residents and businesses in Northeastern Ontario; and

d) To deliver services in a financially efficient and effective manner with an objective of improved cost recovery and self-sustainability.

On March 23, 2012 the Province of Ontario approved a revised mandate for the ONTC directing that the assets of the ONTC be divested, that alternative service delivery models be implemented to deliver Transportation Services in Northern Ontario and that the ONTC be dissolved. The revised mandate of the ONTC is to:

a) divest its assets and business units subject to the approval of the Province of Ontario;

b) wind up and liquidate any assets and obligations which cannot be so divested; and

c) until the completion of the divestiture process, to continue to provide efficient, safe and reliable services in Northern Ontario as directed by the Province of Ontario through the Minister from time to time.

Reporting Structure

The President and CEO reports to the Ontario Northland Transportation Commission, comprised of a Chair and Commission members, each of whom have been appointed by the Province of Ontario. The Commission, in turn, reports to the Ministry of Northern Development and Mines and its Minister, who are responsible for overseeing the Company on behalf of the Province of Ontario.

Commission

On March 23, 2012 the Minister of Northern Development and Mines announced that the province would be adopting a new direction for the provision of transportation services in north-eastern Ontario by allowing the private sector to provide effective, efficient and sustainable transportation. To this end a new board was announced to manage the transition from the public sector provision of services to the private sector.

Commission from April 1, 2011 to March 23, 2012

Ted Hargreaves, North Bay, Chair
Carson Fougère, North Bay
Mathilde Gravelle Bazinet, North Bay
Margaret Hague, Spring Bay
Randy Kapashesit, Moose Factory
Gaetan Micheal Malette, Timmins
Jean-Pierre Ouellette, Cochrane
David Plourde, Kapuskasing
Donavon Porter, Haileybury

A transition board was appointed on March 23, 2012 when the province announced the divestment. The board consists of:

Ted Hargreaves, North Bay, Chair
Philip Howell, Toronto, CEO of the Financial Services Commission of Ontario
Mahmood Nanji, Toronto, Assistant Deputy Minister, Ministry of Economic Development and Innovation
Jonathan Weisstub, Toronto, Head of New Partnerships, Infrastructure Ontario
Greg Percy, Toronto, Vice President, Operations, Metrolinx

Principal Officers – Ontario Northland

Paul Goulet - President and Chief Executive Officer
Kevin Donnelly - Vice President of Finance and Administration
Corina Moore - Chief Operating Officer and Vice President Refurbishment
Amedeo Bernardi - Vice President and General Manager of Ontera
John Thib - Vice President of Rail
Scott Hancock - Vice President of Passenger Services
Russ Thompson – Counsel (retired January 2012)
Geoff Cowie – General Counsel (appointed December 2011)

Employees

Ontario Northland employs more than 1,000 individuals, who live and work in Northern Ontario and Northwestern Quebec.

As a crown agency Ontario Northland employees fall under the same strict guidelines as all public servants and must report any incentives or perquisites that they receive from the company. After six months of employment, employees and their immediate family are issued passes allowing them no cost rail travel on the Northlander and Polar Bear Express trains. Travel is subject to space/availability on date of travel. A 50% discount is offered to employees who travel by bus to/from destinations within Northeastern Ontario. Employees are also eligible to receive reduced freight rates between Cochrane and Moosonee.

Message from the Chair

The fiscal year 2011-2012 proved to be a year of challenges, successes, and disappointments. Despite making various attempts to implement and improve operating efficiencies, operating losses were experienced.

Ontera was cash flow positive and reached their target of diversifying Ontera's carrier wholesale base realizing a 50/50 split between wholesale and retail business by the end of the fiscal year. Ontera also increased its presence in Toronto and a purchase of the assets of Sault PUC Telecom Inc. expanding the network into Sault Ste. Marie.

Rail freight services continued to meet customer needs, despite the significant downturn in the mining and forestry industries, through refinement and modification of service delivery in collaboration/consultation with these valued, long-term customers.

The Refurbishment division was not successful in winning a large contract to refurbish GO Transit rail cars. A few smaller contracts were awarded that kept this state-of-art facility in operation producing an exceptional product and more than satisfied customers.

Increases in ridership on all modes of Ontario Northland passenger services were experienced; however, the cost of providing the parallel services of passenger rail and motor coach services along the Highway 11 corridor from Cochrane to Toronto was recognized as unsustainable.

In early 2012, the government announced plans to divest the business lines of the Ontario Northland Transportation Commission, which include Ontera, Polar Bear Express Train, Ontario Northland Passenger Bus and Charters, Bus Parcel Express, Rail Freight, Niska I ferry service and Refurbishment. This announcement, made by the Minister of Northern Development and Mines on March 23rd, 2012 also included the government's commitment to ensuring the continuation of the Polar Bear Express train service between Cochrane and Moosonee and to ensuring the continuation of motor coach services to communities currently served only by Ontario Northland. The provincial government also announced the Northlander passenger train service would be phased out. All of ONTC's other business lines will be tendered for sale.

A new board was appointed to oversee this transition process. This board and the province are committed to undertaking these activities in a fair, open and transparent manner.

Ted Hargreaves,
Chair, Ontario Northland Transportation Commission

2011-2012 in Review

Passenger Services

Improving the customer experience was the main focus of the Passenger Services division this past year. Eight new accessible and environmentally-friendly buses were introduced into the fleet to meet the demands and needs of our vast service territory.

A bus depot in Sudbury was officially opened in January 2012. The facility was opened to provide a clean, modern and convenient location to our Sudbury passengers. AirMiles Reward Miles was added as a customer incentive for passengers travelling on our buses or trains. Our hotel in Cochrane was revitalized with many new services and amenities that also resulted in gains in net income.

During the course of the year, the charter bus operation grew by 42% by targeting clientele that complemented our regular line service. This initiative created additional capacity for peak periods and reduced the amount of expensive third party contracting. For the most part, new customers were moving from school bus service to a safer highway coach with an experienced and well trained driver.

Passenger Numbers:

Northlander	39,911
Polar Bear Express	64,188
Dream Catcher Express	525
Motor Coach	230,616
Charter Days	934 days

Overall, there was a 4% growth in ridership during this fiscal period.

2011-2012 in Review

Ontera Telecommunication Services

Ontera achieved some major accomplishments, as well as held revenues steady in a turbulent market through 2011-2012. One of the most significant accomplishments was the extension of their network to include high capacity diverse paths to a major telecommunications company hub at 151 Front Street in Toronto. In addition to this, significant improvements were made to Network Monitoring, and Management and Records Infrastructure.

Ontera's customer care department migrated to a new, state-of-the-art call distribution and reporting system which vastly improved call monitoring and reporting capabilities. Customer service training was rolled out to all Customer Care staff in early 2012. Customer relations and marketing efforts helped secure two new school board networks and established new inter-carrier relationships with Cogeco Data, Rogers, TBay Tel and LakeLand (Muskoka).

Ontera officially opened a newly renovated networks operation centre (NOCC) in Timmins in June 2011. The NOCC houses highly-trained technical staff, who are responsible for monitoring and identifying alarms, troubleshooting network service failures, dispatching technicians, and tracking service issues to completion.

In November, Ontera purchased the telecommunication assets of Sault Ste. Marie's PUC Telecom Inc. This purchase is the result of an existing joint venture between the two companies. Since 2001, Ontera and PUC Telecom Inc. have collaborated to provide telecommunications services to Sault Ste. Marie and the Algoma region. With the purchase, Ontera is now the sole provider of this service to the region.

Diesel tanks were installed at three remote tower sites on the James Bay coast. These double-walled tanks replaced six single-walled tanks increasing environmental safety and ensuring efficient and reliable power is provided to the essential equipment at these remote sites.

Ontera commenced a project in the final quarter of the fiscal year working with enterprise IT to enhance time reporting allowing for tracking of labour, contract and material costs disaggregated to specific work orders and trouble tickets.

2011-2012 in Review

Rail Services

The Rail division faced many challenges in the 2011-2012 fiscal year. Despite losses, there were significant cost reductions and service improvements implemented throughout the year.

Freight Marketing and operations staff worked to meet customer needs by continuing to have regular meetings with all of our major consumers and establishing modified train schedules and reduced train starts.

The train radio system upgrade to a digital platform was completed this year. The system now meets industry standards, well ahead of the 2013 deadline.

In April 2011 a derailment of three locomotives and ten rail cars occurred 16 miles north of North Bay. The incident was the result of bank failure due to water saturation caused by a frozen culvert. After approximately five days, train services were restored. A second major derailment occurred in August 2011, approximately 100 miles west of Cochrane on the Kapuskasing Subdivision. This incident was related to a failed track component. The clean up and recovery costs of these two incidents had a significant impact on the company's finances.

Despite our efforts to promote rail safety through radio campaigns and community education in partnership with Operation Lifesaver, several crossing incidents occurred during the year resulting in two fatalities, damage to equipment, and service disruptions.

The Health and Safety committees within the Rail division continued to be extremely active, injury statistics decreased significantly. Lost time injuries declined by 23% compared to the previous year.

2011-2012 in Review

Refurbishment Services

After placing an unsuccessful bid for the continuation of refurbishment of bi-level passenger GO Transit rail cars, the organization sought other short-term, smaller volume contracts. To date, a 24 car contract was secured with Agence métropolitaine de transport of Montreal and a ten car contract was for CAD Railways. A seven car paint contract was completed in March 2012 for British Columbia's Rocky Mountaineer.

Ontario Northland's plans to refurbish ten Polar Bear Express rail cars were cancelled due to the age and state of the cars, and the discovery of asbestos.

Corporate Services

Facilities:
The replacement of roof at corporate headquarters in North Bay addressed several issues related to moisture and air quality. Energy management was a priority with lighting systems, an HVAC and other facilities improvements throughout the organization. Overall, the facilities group completed six projects within this fiscal year which will provide efficiency and savings in the future.

Finance:
Ontario Northland continues to face funding and contribution issues with respect to maintaining the viability of the pension plan. Ontario Northland continued to face significant cash flow challenges in 2011-2012 resulting in a restriction of capital and operating spending.

Human Resources:
Human Resources/Labour Relations successfully negotiated 11 collective agreements covering 850 employees resulting in a stable work environment.

Information Technology:
The IT department consolidated all users and resources into one domain, simplifying administration, increasing support speed and annual savings because of reduced license, hardware and power costs.

Communications:
The corporate website was refreshed and a corporate video was produced in the Summer of 2011.

Project Management:
Successful management of 45 projects, over 500 work orders and thousands of individual task assignments were tracked.

Process Improvement:
Trained 122 additional employees in General Lean Awareness and added 13 Lean Six Sigma Green Belt champions

2011-2012 in Review

Ontario Northland in our Communities

Ontario Northland employees continued to significantly contribute to local service clubs, sports clubs and community organizations throughout Northeastern Ontario. In addition, as a corporate citizen, Ontario Northland coordinated the following activities:

Stuff the Bus:
Food Drives in Timmins, North Bay, Cochrane and Sudbury resulting in over 5,000lbs of food collected and delivered for local food banks.

Christmas Train:
This new initiative replaced the Santa Claus Express. This decorated freight train stopped in many northern communities where local schools choirs and musical groups met the train and performed for a crowd on the train's box car/stage.

Accessibility and Clean Air Day, City of North Bay:
Ontario Northland's accessible motor coaches were on display at this annual event in North Bay. The environmental benefit of travelling by bus was as emphasized at this one day event.

Green Initiatives

Our telecommunications, travel and transportation solutions are inherently environmentally friendly. The company considers environmental impacts when introducing new services or updating facilities. The following activities are just a few of the operational initiatives that were put into place to lessen environmental impacts:

- Anti idling practices – rail, motor coach and telecom services
- Ultra low sulphur diesel fuel – motor coach services
- Diesel powered generator sites updated to prevent accidental spills - remote microwave sites
- Battery plants renewed to provide efficient backup power
- Building and lighting retrofits to be energy efficient
- Electronics recycling collection programs

Safety

Safety continued to be a priority in 2011-2012 with focus on safe work practices. Throughout the corporation, there was a 39% decrease in lost time injuries compared to the previous fiscal year.

Ontario Northland Transportation Commission

Consolidated Financial Statements

For the years ended March 31, 2012 and 2011

Ontario Northland Transportation Commission
Consolidated Financial Statements
For the years ended March 31, 2012 and 2011

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Management's Responsibility

The Ontario Northland Transportation Commission's management is responsible for the integrity and fair presentation of the consolidated financial statements and other information included in the annual report. The consolidated financial statements have been prepared in accordance with Canadian public sector accounting standards. The preparation of consolidated financial statements necessarily involves the use of management's judgment and best estimates, particularly when transactions affecting the current accounting period cannot be determined with certainty until future periods. All financial information in the annual report is consistent with the consolidated financial statements.

The Commission maintains systems of internal accounting controls designed to provide reasonable assurance that the financial information is accurate and reliable and that the Commission's assets and liabilities are adequately accounted for and assets safeguarded.

The Commission is responsible for ensuring that management fulfils its responsibilities for internal control and financial reporting. The Commission meet regularly with management and external auditors to satisfy itself that each group has met its responsibilities. These consolidated financial statements have been reviewed and approved by the Commission.

These consolidated financial statements have been audited by the Auditor General of Ontario, whose responsibility is to express and opinion on whether they are fairly presented in accordance with Canadian public sector accounting standards. The Auditor's Report which follows outlines the scope of the Auditor's examination and opinion.

T. Hargreaves
Chair

P. Goulet
President and CEO

North Bay, Ontario
October 4, 2012

Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

Independent Auditor's Report

To the Ontario Northland Transportation Commission
and to the Minister of Northern Development and Mines

I have audited the accompanying consolidated financial statements of Ontario Northland Transportation Commission, which comprise the consolidated statements of financial position as at March 31, 2012, March 31, 2011 and April 1, 2010 and the consolidated statements of operations, changes in net assets and cash flows for the years ended March 31, 2012 and March 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audits. I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained in my audits is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Ontario Northland Transportation Commission as at March 31, 2012, March 31, 2011 and April 1, 2010, and its consolidated results of operations, changes in its consolidated net assets, and its consolidated cash flows for the years ended March 31, 2012 and March 31, 2011 in accordance with Canadian public sector accounting standards.

Emphasis of Matter

Without qualifying my opinion, I draw attention to Note 1 to the consolidated financial statements which indicates that the Province of Ontario announced its intention to divest the operations of the Ontario Northland Transportation Commission and to wind up and liquidate any assets and obligations which cannot be so divested. The Ontario Northland Transportation Commission's ability to maintain operations is dependent on the continued support from the Government of Ontario while completing its divestiture plans. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Ontario Northland Transportation Commission's ability to continue as a going concern.

Jim McCarter, FCA
Auditor General
Licensed Public Accountant

Toronto, Ontario
October 4, 2012

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Ontario Northland Transportation Commission
Consolidated Statement of Financial Position
(dollars in thousands)

March 31, 2012, March 31, 2011 and April 1, 2010

	March 31 2012	March 31 2011	April 1 2010
Assets			
Current			
Cash (Note 4)	$ 6	$ 6,823	$ 4,823
Accounts receivable (Net of allowance - $1,714; 2011 - $3,684; 2010 - $3,677)	22,676	20,579	18,468
Inventory	13,552	16,376	18,319
Prepaid expenses	658	983	1,348
	36,892	44,761	42,958
Capital assets (Schedule 1)	313,543	307,351	297,381
Accrued pension benefit asset (Note 5a)	52,488	29,502	20,609
	$ 402,923	$ 381,614	$ 360,948
Liabilities and Net Assets			
Current			
Operating lines of credit (Note 6)	$ -	$ 12,300	$ 12,925
Accounts payable and accrued liabilities	24,501	31,236	29,383
Current portion of long-term debt	4,492	4,241	4,383
Current portion of capital lease obligation	-	24	11
Current portion of deferred revenue	3,949	322	616
	32,942	48,123	47,318
Deferred revenue	759	759	828
Deferred capital contributions (Note 7)	126,630	108,581	89,078
Long-term debt (Note 8)	27,356	31,879	34,369
Capital lease obligation	-	-	24
Accrued non-pension benefit obligation (Note 5b)	68,143	65,036	61,064
	255,830	254,378	232,681
Net assets			
Unrestricted	142,297	122,598	123,772
Internally restricted	4,796	4,638	4,495
	147,093	127,236	128,267
Nature of Operations (Note 1)			
Contingencies (Note 11) / **Commitments** (Note 12)			
	$ 402,923	$ 381,614	$ 360,948

Approved on behalf of the Commission:

Chair

President and CEO

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

Ontario Northland Transportation Commission
Consolidated Statement of Changes in Net Assets
(dollars in thousands)

Years ended March 31, 2012 and 2011

	March 31 2012	March 31 2011
Unrestricted net assets		
Balance, beginning of year (Note 14)	$ 122,598	$ 123,772
Excess (deficiency) of revenues over expenses	19,857	(1,031)
Internally restricted - transfer to Reserve for Self Insurance	(158)	(143)
Balance, end of year	$ 142,297	$ 122,598
Internally Restricted - Reserve for Self Insurance (Note 10)		
Balance, beginning of year	$ 4,638	$ 4,495
Transfers from Unrestricted Net Assets		
Interest earned	58	43
Annual premium	100	100
	158	143
Balance, end of year	$ 4,796	$ 4,638
Total Net Assets	$ 147,093	$ 127,236

Ontario Northland Transportation Commission
Consolidated Statement of Operations
(dollars in thousands)

Years ended March 31, 2012 and 2011

	2012	2011
Rail Services		
Sales revenue (Note 13)	$ 50,383	$ 51,704
Operating expense	75,411	73,315
Deficiency of revenue over expenses before the undernoted	(25,028)	(21,611)
Amortization of capital assets	10,433	9,462
Employee future benefit expense	4,468	5,219
Gain on sale of capital assets	(418)	(517)
Interest expense	537	587
Deficiency of revenue over expenses	(40,048)	(36,362)
Telecommunications (Ontera)		
Sales revenue	29,873	31,949
Operating expense	27,734	25,343
Excess of revenue over expenses before the undernoted	2,139	6,606
Amortization of capital assets	4,638	5,162
Employee future benefit expense	1,061	1,336
Impairment of capital assets	-	1,322
Gain on sale of capital assets	(26)	-
Interest expense	1,214	937
Deficiency of revenue over expenses	(4,748)	(2,151)
Motor Coach Services		
Sales revenue	11,488	11,050
Operating expense	12,131	10,795
Excess (deficiency) of revenue over expenses before the undernoted	(643)	255
Amortization of capital assets	410	506
Employee future benefit expense	463	553
Gain on sale of capital assets	(165)	-
Interest expense	98	101
Deficiency of revenue over expenses	(1,449)	(905)
Refurbishment		
Sales revenue	7,348	18,553
Operating expense	9,633	18,769
Deficiency of revenue over expenses before the undernoted	(2,285)	(216)
Amortization of capital assets	85	85
Employee future benefit expense	490	891
Interest expense	129	140
Deficiency of revenue over expenses	$ (2,989)	$ (1,332)

Ontario Northland Transportation Commission
Consolidated Statement of Operations
(dollars in thousands)

Years ended March 31, 2012 and 2011

	2012	2011
Marine Services (Moosonee)		
Sales revenue	$ 153	$ 153
Operating expense	370	247
Deficiency of revenue over expenses	(217)	(94)
Rental Properties		
Sales revenue	592	563
Operating expense	359	318
Excess of revenue over expenses before the undernoted	233	245
Amortization of capital assets	37	37
Gain on sale of capital assets	(1)	(1)
Excess of revenue over expenses	197	209
Administration		
Operating expenses and deficiency of revenue over expenses before the undernoted	8,924	8,629
Amortization of capital assets	111	111
Employee future benefit expense	704	765
Interest expense	167	106
Gain on sale of capital assets	(64)	-
Deficiency of revenue over expenses	(9,842)	(9,611)
Total Operations		
Sales revenue	99,837	113,972
Operating expense	134,562	137,416
Deficiency of revenue over expenses before the undernoted	(34,725)	(23,444)
Amortization of capital assets	15,714	15,363
Employee future benefit expense	7,186	8,764
Impairment of capital assets	-	1,322
Derailment costs	3,657	-
Gain on sale of capital assets	(674)	(518)
Interest expense	2,145	1,871
Deficiency of revenue over expenses before Government reimbursement and the following items	(62,753)	(50,246)
Government reimbursement (Note 9)	78,215	46,100
Amortization of deferred capital contributions (Note 7)	4,309	3,063
Excess (deficiency) of revenue over expenses before the following items	19,771	(1,083)
Investment and other income	28	9
Investment income on Reserve for Self Insurance	58	43
Excess (deficiency) of revenue over expenses for the year	$ 19,857	$ (1,031)

Ontario Northland Transportation Commission
Consolidated Statement of Cash Flows
(dollars in thousands)

Years ended March 31, 2012 and 2011

	2012	2011
Cash provided by (used in)		
Operating activities		
Excess (deficiency) of revenue over expenses for the year	$ 19,857	$ (1,031)
Items not affecting cash		
Amortization of capital assets	15,714	15,363
Amortization of deferred capital contributions	(4,309)	(3,063)
Gain on disposal of capital assets	(674)	(518)
Derailment costs	3,657	-
Impairment of capital assets	-	1,322
Employee future benefit expense	7,186	8,764
	41,431	20,837
Changes in non-cash working capital balances		
Accounts receivable	(5,754)	(2,111)
Inventory	2,824	1,943
Prepaid expenses	325	365
Accounts payable and accrued liabilities	(6,735)	1,853
Deferred revenue	3,627	(363)
Net pension benefit asset	(24,901)	(11,725)
Net non-pension benefit obligation	(2,164)	(1,960)
	8,653	8,839
Capital activities		
Investment in capital assets	(21,906)	(26,655)
Proceeds from sale of capital assets	674	518
	(21,232)	(26,137)
Financing activities		
Operating lines of credit	(12,300)	(625)
Long-term debt	(4,272)	(2,632)
Capital lease obligations	(24)	(11)
Deferred capital contributions	22,358	22,566
	5,762	19,298
Change in cash during the year	(6,817)	2,000
Cash, beginning of year	6,823	4,823
Cash, end of year	$ 6	$ 6,823

Ontario Northland Transportation Commission
Consolidated Schedule of Capital Assets
Schedule 1
(dollars in thousands)

Years ended March 31, 2012 and 2011

	Cost	Accumulated Amortization	2012 Net Book Value	2011 Net Book Value
Rail Services				
Roadway	$ 324,806	$ 126,007	**$ 198,799**	$ 185,538
Buildings	43,363	19,913	**23,450**	24,131
Equipment	77,607	51,154	**26,453**	30,203
Equipment under capital lease	1,022	299	**723**	773
Under construction	4,035	-	**4,035**	3,871
Telecommunications (Ontera)				
Equipment	165,828	122,383	**43,445**	34,607
Buildings	6,751	4,255	**2,496**	2,317
Under construction	-	-	**-**	11,699
Motor Coach Services				
Coaches	8,589	6,223	**2,366**	2,705
Buildings	2,796	342	**2,454**	2,525
Refurbishment				
Equipment	585	135	**450**	480
Buildings	3,435	485	**2,950**	3,019
Marine Services (Moosonee)				
Vessels	4,826	370	**4,456**	17
Under construction	-	-	**-**	3,964
Development				
Land and buildings	2,851	1,385	**1,466**	1,502
	$ 646,494	$ 332,951	**$ 313,543**	$ 307,351

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements

1. Nature of Operations

The Ontario Northland Transportation Commission (the "Commission"), an Operational Enterprise of the Province of Ontario ("the "Province"), delivers a variety of services, including rail freight, passenger rail, motor coach and telecommunications primarily in the north-eastern portion of Northern Ontario.

On March 23, 2012 and in the 2012 Ontario budget, the Province announced its intent to divest the operations of the Commission. A transition board has been appointed to begin the divestment process.

The revised mandate of the Commission is to:

(a) divest its assets and business units subject to the approval of the Province;

(b) wind up and liquidate any assets and obligations which cannot be so divested; and

(c) until the completion of the divestiture process, to continue to provide efficient, safe and reliable services in Northern Ontario as directed by the Province through the Minister of Northern Development and Mines (the "Minister") from time to time.

The Commission's ability to maintain operations is dependent on the continued support from the Province while completing its divestment plans. Accordingly, these consolidated financial statements have been prepared on a going concern basis. This assumes that the Commission will be able to realize its assets and discharge its liabilities in the ordinary course of business.

These consolidated financial statements do not reflect any adjustments that would be necessary if the going concern assumption were not applicable. If the going concern assumption were not applicable for these financial statements, adjustments to the carrying value of assets would be necessary and reported revenues and expenses and statement of financial position classifications used to reflect these on a liquidation basis could differ from those applicable to a going concern.

2. Adoption of Accounting Standards for Government Not-for-Profit Organizations

On April 1, 2011, the Commission adopted Canadian generally accepted accounting principles for government not-for-profit organizations ("GNPO's") as recommended by the Public Sector Accounting Board ("PSAB") of the Canadian Institute of Chartered Accountants. These are the first financial statements prepared in accordance with PSAB standards which were originally prepared based on the accounting standards of Part V of the CICA Handbook. In accordance with the transitional provisions of PSAB, the Commission has adopted the changes retrospectively. The transition date is April 1, 2010 and all comparative information provided has been presented by applying PSAB standards, with the exception of the optional elections outlined below. A summary of transitional adjustments recorded to net assets is provided in note 14.

Optional elections adopted:

The Commission adopted the following optional elections which are permitted upon transition to PSAB Standards.

a) Employee future benefits
The Commission elected to recognize all cumulative actuarial losses from inception related to post-employment and post-retirement plans as of April 1, 2010, directly in net assets.

b) Tangible capital asset impairment
The Commission elected to adopt the requirements of PS 3150 – Tangible Capital Assets (PS 3150) regarding tangible capital asset impairment on a prospective basis. Tangible capital asset impairments that were recognized prior to April 1, 2010 were not reassessed based on the requirements of PS 3150.

Impact of retroactive application:

a) Employee future benefits

The Commission retrospectively applied the following recommendations of Sections PS 3250 - Retirement Benefits (PS 3250) and PS 3255 - Post-Employment Benefits, Compensated Absences and Termination Benefits (PS 3255).

2. Adoption of Accounting Standards for Not-for-Profit Organizations (continued):

The Commission has a defined benefit pension plan that covers substantially all of its employees. Previously under CICA 3461 – Employee Future Benefits (CICA 3461), the Commission recorded an expense, accrued pension benefit asset and liability based on the recommendations of Section 3461, which differ from the recommendations of PS 3250 and PS 3255 as follows:

- Pursuant to Section 3461, the discount rate used to calculate the accrued benefit obligation is the rate of return of high-quality debt instruments. Under PS 3250 the discount rate used is the expected rate of return for the Commission's plan asset's earnings in the case of its pension plan and its borrowing costs in the case of its unfunded non-pension benefit plans;
- Pursuant to CICA 3461, the cost of the post-retirement benefits was charged to expense over the period from the date of hire to the date of full eligibility. Under PS 3250 the cost of the post-retirement benefits are expensed over the period from the date of hire to the expected date of retirement;
- Pursuant to CICA 3461, past service costs were amortized over the average remaining service period of employees expected to receive benefits. Under PS 3250, prior service costs are recognized in the period of plan amendment. Unrecognized actuarial gains may be used to offset the cost.
- Pursuant to CICA 3461, actuarial gains and losses were amortized using the corridor method for the Commission's post-retirement plans. This method involved calculating, at the beginning of the year, the excess of actuarial gains and losses over 10% of the greater of the accrued benefit obligation and the fair value of plan assets and then amortizing that excess over the expected average remaining employee service life (EARSL) of active employees expected to receive benefits under the plan. Under PS 3250, actuarial gains or losses are amortized on a straight-line basis over the EARSL (to the extent that they are not recognized earlier to offset prior service costs or gains).
- Pursuant to CICA 3461, actuarial gains and losses were amortized on a straight-line basis over the expected period during which benefits would be paid for the Commission's post-employment plans. Post-employment experience gains and losses were recognized immediately. Under PS 3255, all actuarial gains and losses, including experience gains and losses, are amortized on a straight-line basis over the expected period during which benefits will be paid.

b) Deferred capital contributions and capital subsidy revenue

Pursuant to PS 4210 - Contributions (PS 4210), contributions received for the purchase of capital assets are deferred and amortized on the same basis as the related capital assets. This policy is consistent with the policy the Commission previously adopted under CICA 3800 – Government Assistance and accordingly there was no impact as a result of the adoption of PS 4210.

3. Significant Accounting Policies

These consolidated financial statements are prepared in accordance with the standards applicable for government not-for-profit organizations found in the Canadian Institute of Chartered Accountants ("CICA") Public Sector Accounting Handbook. They include the accounts of the Commission and its wholly-owned subsidiaries, Ontario Northland International Consulting Services Inc., O.N. Tel Inc. (o/a Ontera) and Nipissing Central Railway Company.

Revenue Recognition

Revenue from all sources is recognized when all of the following conditions are met:

a) services are provided or products delivered to customers
b) there is clear evidence that an arrangement exists, and
c) collection is reasonably assured.

Rail services revenues are generally recognized on completion of movements, with interline movements being treated as complete when the shipment is turned over to the connecting carrier.

Contract revenues are generally recorded on a percentage of completion basis as work reaches predetermined project milestones.

Monthly subscriber fees in connection with wireless telecommunications services, internet services, network, local and long distance services are recorded as revenue as the service is provided. Any revenue or cost adjustments, whether positive or negative, in the interconnection and traffic settlement agreements are recognized in the year in which they become known and estimable.

The Commission accounts for provincial and federal reimbursements under the deferral method of accounting as follows:

- Unrestricted reimbursements are recognized as revenue when received or receivable if the amounts can be reasonably estimated and collection is reasonably assured.

- Externally restricted reimbursements related to operating expenditures are recognized as revenue when the related expenditures are incurred.

- The Province reimburses the Commission for the cost of certain capital assets purchased for use in operations. The Commission records the reimbursements as deferred capital contributions. Deferred capital contributions are amortized to revenue on a straight-line basis at rates corresponding to those of the related capital assets.

3. Significant Accounting Policies (continued)

Capital Assets

Capital assets are stated at acquisition cost less accumulated amortization. Amortization is provided using the straight-line method over the estimated useful lives of the assets.

The estimated useful lives for principal categories of capital assets are as follows:

Roadway - main line and branches	20 to 50 years
Railway diesel locomotives	25 years
Railway cars	33 years
Buildings	50 years
Telecommunications equipment	15 to 25 years
Vehicles	3 years
Computer equipment	5 years
Coaches	12 years

No amortization is provided on assets under construction until they are placed in use.

Employee Future Benefits

Pension Plans - The Commission maintains a contributory defined benefit pension plan for its employees. It provides for pensions based on years of service and average pensionable earnings and is generally applicable from the first day of the month following employment. A Supplementary Employee Retirement Plan (SERP) also exists for employees who earn a lifetime pension amount in excess of the Canadian Income Tax Act's maximum. The obligations under the plan are determined using the accrued benefit method reflecting projected benefits for services rendered to date. The plans are not indexed; however, there have been a variety of ad hoc increases made to pensioners.

Non-Pension Benefit Plans - The Commission offers non-pension post retirement benefits such as group life, health care and long-term disability to employees through defined benefit plans. The costs associated with these future benefits are actuarially determined using the projected benefits method prorated on service and best estimate assumptions. In addition, as a Schedule 2 employer under the Workplace Safety and Insurance Board (WSIB), the Commission recognizes workers compensation benefits on an accrual basis using actuarial calculations provided by the WSIB for benefits in force, benefits not yet awarded and administrative loading costs.

3. **Significant Accounting Policies - *Employee Future Benefits* (continued)**

Both Pension and Non-Pension expenses consist of current service costs, interest and adjustments arising from plan amendments, changes in assumptions and net actuarial gains or losses. These expenses are recorded in the year in which employees render services to the Commission. Past services pension costs were charged to net assets on transition to PS-3250. Actuarial gains and losses are amortized on a straight-line basis over the EARSL of the employees covered by the plans (approximately 12 years). Past service costs are recognized in the period of plan amendment.

Pension fund assets are valued using current market values.

Inventory

Materials and supplies, with the exception of used rail and wheel-sets, are valued at the lower of cost and net realizable value by using the weighted-average costing methodology. Used rail is shown at unamortized book value determined at the time of retirement. Wheel-sets are valued at standard cost. The Commission uses the same cost formulas for all inventories having a similar nature and use to the Commission. When net realizable value exceeds carrying cost, inventory is written down accordingly. When circumstances which previously caused inventories to be written down no longer exist, that previous impairment is reversed.

The cost of inventory expensed to operations and used in capital projects for 2012 was $20,683 ($24,397 in 2011).

Impairment of Capital Assets

Capital assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the capital asset may not contribute to the Commission's ability to deliver services. Recoverability is measured by a comparison of the carrying amount to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. When quoted market prices are not available, the Commission uses the expected future cash flows discounted at a rate commensurate with the risks associated with the recovery of the asset as an estimate of fair value.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated at the prevailing rates of exchange at the consolidated balance sheet date. Revenues and expenses are translated at the rates of exchange in effect at the transaction date. Realized and unrealized gains and losses are included in the determination of excess of revenue over expenses. Included in Rail revenue is a foreign currency loss of $62 (2011 - gain of $244) arising mainly from rail traffic settlements between Canada and the U.S.A.

3. Significant Accounting Policies (continued)

Income Taxes

As an Operational Enterprise of the Province, the Commission is exempt from income taxes. This exemption extends to its wholly-owned subsidiaries, and accordingly no tax provision is recorded in these financial statements.

Accounting Estimates

The preparation of the consolidated financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the useful lives of capital assets, valuation allowances for accounts receivable and inventory and obligations for pension and non-pension post employment benefits. By their nature, these estimates are subject to measurement uncertainty. The effect of changes in such estimates on the consolidated financial statements in future periods could be significant. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in consolidated statement of operations in the year in which they become known.

Cash

Cash include cash on hand, balances with banks, and restricted cash.

4. Cash

	March 31, 2012	March 31, 2011	April 1, 2010
Cash (bank overdraft)	$ (4,790)	$ 2,185	$ 328
Cash related to Reserve for Self Insurance (Note 10)	4,796	4,638	4,495
Cash	$ 6	$ 6,823	$ 4,823

5. Employee Future Benefits

The Commission is the administrator of its contributory pension plan which covers all permanent staff. The pension fund assets primarily include marketable securities, real estate and corporate and government bonds, which are invested by professional investment managers. The Commission's pension plan has an annual measurement date of December 31st.

The accrued pension benefit asset and non-pension benefit obligation and expenses are determined annually by independent actuaries in accordance with accepted actuarial practices and Canadian public sector accounting standards using management's best estimates. The date of the most recent actuarial valuation for the contributory pension plan for funding purposes was January 1, 2011. The results of this valuation were extrapolated to December 31, 2011. In accordance with existing pension regulations, annual valuations will be completed for the Commission's pension plan. The date of the most recent report for accounting purposes for the non-pension post employment benefit plan was December 31, 2011. This report is completed annually.

The pension plan's asset target percentage allocation and average asset allocation as at March 31, 2012 and March 31, 2011, by category are as follows:

		Target	2012	2011
Equity securities	– Domestic	20% - 30%	**22.1%**	26.3%
	– Foreign	10% - 30%	**18.1%**	17.4%
Debt securities		35% - 55%	**57.6%**	52.8%
Real estate		0% - 15%	**1.7%**	1.8%
Short-term and other		0% - 15%	**0.5%**	1.7%
Total			**100%**	100%

5. Employee Future Benefits (continued):

a. Reconciliation of accrued benefit obligation to accrued benefit asset (liability):

Pension Plans:

	Pension	SERP	March 31, 2012	March 31, 2011	April 1, 2010
Accrued benefit obligation	$ (441,965)	$ (2,674)	$ (444,639)	$ (422,013)	$ (477,051)
Plan assets at fair value	461,953	-	461,953	452,857	422,865
Funded status - plan (deficit) surplus	19,988	(2,674)	17,314	30,844	(54,186)
One-time transitional adjustment	-	-	-	-	(38,041)
Unamortized net actuarial (gain) loss	34,459	715	35,174	(1,342)	112,836
Accrued benefit asset (liability) net of valuation allowance - end of year	$ 54,447	$ (1,959)	$ 52,488	$ 29,502	$ 20,609

	Pension	SERP	March 31, 2012	March 31, 2011	April 1, 2010
Accrued benefit asset - beginning of year	$ 31,430	$ (1,928)	$ 29,502	$ 20,609	$ 70,475
One-time transitional adjustment	-	-	-	-	(38,041)
Adjusted Accrued benefit asset - beginning of year	$ 31,430	$ (1,928)	$ 29,502	$ 20,609	$ 32,434
Employee future benefit expense	(1,700)	(215)	(1,915)	(2,832)	(11,973)
Funding contributions	22,729	184	22,913	5,346	148
Special payments	1,988	-	1,988	6,379	-
Accrued benefit asset - end of year	$ 54,447	$ (1,959)	$ 52,488	$ 29,502	$ 20,609

5. Employee Future Benefits (continued):

b. Reconciliation of accrued benefit obligation to accrued benefit asset (liability)

Non-Pension Benefit Plans:

	March 31, 2012	March 31 2011
Accrued benefit obligation - beginning of year	**$ (72,683)**	$ (67,266)
Unamortized net actuarial loss	**4,540**	2,230
Accrued benefit liability - end of year	**$ (68,143)**	$ (65,036)
Accrued benefit liability - beginning of year	**$ (65,036)**	$ (61,064)
Expense - Non-WSIB	**(3,891)**	(3,569)
Expense - WSIB	**(1,380)**	(2,363)
Funding contributions - Non-WSIB	**2,164**	1,960
Accrued benefit liability - end of year	**$ (68,143)**	$ (65,036)

Included in the accrued non-pension benefit liability are workers' compensation benefits in the amount of $16,210 (2011 - $14,830). This amount has been determined from the most recent available actuarial calculations provided by the Workplace Safety and Insurance Board as at December 31, 2011.

c. Components of Net Periodic Pension Benefit expense

	2012	2011
Current service cost less employee contributions	**$ 4,189**	$ 4,085
Interest on accrued benefit obligation	**26,958**	27,618
Expected return on plan assets	**(29,121)**	(28,871)
Amortization of net actuarial loss	**(111)**	-
	$ 1,915	$ 2,832

5. Employee Future Benefits (continued):

d. Components of Net Periodic Non-Pension Benefit Expense

	2012	2011
Current service cost	$ 2,568	$ 3,409
Interest on accrued benefit obligation	2,544	2,523
Amortization of net actuarial gain	159	-
	$ 5,271	$ 5,932

e. Weighted Average Assumptions

Discount rate - pension	6.25 %	6.50 %
Discount rate - non pension	4.52 %	4.85 %
Discount rate - WSIB	7.00 %	7.00 %
Expected long-term rate of return on plan assets	6.25 %	6.50 %
Rate of compensation increase		
2010 & 2011	0 %	1.5 %
2012 & 2013	0.5 %	2.0 %
2014 & thereafter	3.0 %	3.0 %
Average remaining service period (years)	12	12
Drug cost increases (grading down to 5% in 2020)	9.0%	9.5%
Medical and hospital cost increases	5.0%	5.0%
Dental cost increases	4.5%	4.5%
Vision care cost increases	0%	0%

6. Operating Lines of Credit

The Commission previously held an operating line of credit with the Ontario Financing Authority (OFA) in the amount of $8,000, of which $0 is being utilized at March 31, 2012 (2011 - $8,000). The line of credit bears interest at the Province's cost of borrowing plus 5 basis points on the date of each advance. In addition, the Commission previously held a revolving operating line of credit with the OFA in the amount of $7,000, of which $0 was being utilized as at March 31, 2012 (2011 - $4,300). This line of credit bears interest at the Province's cost of borrowing plus 40 basis points based on the date of each advance. Both lines of credit are no longer available for use.

The Commission also holds a demand operating line of credit with the Canadian Imperial Bank of Commerce in the amount of $1,500 which is available for letters of guarantee and is secured by the Commission's accounts receivable. At March 31, 2012, one letter of guarantee totalling $428 (2011 - $ 1,428) had been issued with an annual renewal commission of 37.5 basis points. The letter of guarantee of $428 was cancelled in May 2012.

7. Deferred Capital Contributions

Deferred capital contributions related represent the unamortized capital reimbursements received from the Minister to fund the acquisition of capital assets. The amortization of deferred capital contributions is recorded as revenue in the consolidated statement of operations at a rate equal to the amortization of the related assets.

The changes in the unamortized deferred capital contributions balance are as follows:

	2012	2011
Balance - beginning of year	**$ 108,581**	$ 89,078
Contributions from the Province	**22,358**	22,566
Amortization to revenue – Rail Services	**(3,438)**	(2,192)
– Telecommunications (Ontera)	**(871)**	(871)
Balance - end of year	**$ 126,630**	$ 108,581

8. Long-term Debt

	March 31, 2012	March 31, 2011	April 1, 2010
Loan from Ontario Financing Authority, bearing interest at 5.22% per annum, repayable in blended monthly payments of $30 for 15 years beginning February 1, 2005	**$ 2,348**	$ 2,584	$ 2,809
Loan from Ontario Financing Authority, bearing interest at 5.60% per annum, repayable in blended monthly payments of $156 for 15 years beginning January 1, 2000.	**4,757**	6,315	7,789
Loan from Ontario Financing Authority, bearing interest at 6.37% per annum, repayable in blended monthly payments of $109 for 15 years beginning September 1, 1999.	**2,929**	4,018	5,040
Loan from Ontario Financing Authority, bearing interest at 4.90% per annum, repayable in blended monthly payments of $13 for 25 years beginning February 1, 2006.	**1,962**	2,024	2,083
Loan from Bank of Montreal, bearing interest at 5.11% per annum, repayable in blended monthly payments of $64 for 10 years beginning April 30, 2008. Secured by a floating charge on all Ontera assets.	**3,959**	4,509	5,031
Loan from Bank of Montreal, bearing interest at 5.95% per annum, repayable in blended weekly payments of $32 for 15 years beginning October 7, 2010. Secured by a floating charge on all Ontera assets.	**15,893**	16,670	16,000
	31,848	36,120	38,752
Less current portion	**4,492**	4,241	4,383
Long-term debt	**$ 27,356**	$ 31,879	$ 34,369

8. Long-Term Debt (continued):

Interest on long-term debt was $1,937 ($1,645 in 2011).

Payments required in the next five years and thereafter are as follows:

2012-2013	$ 4,492
2013-2014	4,756
2014-2015	3,789
2015-2016	1,988
2016-2017	2,120
Thereafter	14,703
	$ 31,848

9. Government Reimbursement

In accordance with a Memorandum of Understanding between the Commission and the Minister, certain operations of the Commission have been designated as non-commercial. The Commission and the Minister have entered into annual contribution agreements which define the amount of compensation which the Minister would provide each fiscal year.

A portion of the operating loss of the weekday passenger train service between North Bay and Toronto is reimbursed by the National Transportation Agency of Canada under Section 270 of the Railway Act. The federal government revoked the Railway Act during 1996 and replaced it with the Canada Transportation Act. A reimbursement of $2,500 (2011 - $2,500) was received for the year ended March 31, 2012.

Details of Government reimbursement received during the year are as follows:

	2012	2011
Ministry of Northern Development and Mines:		
Rail - Passenger Service and Moosonee Branch	**$ 25,097**	$ 21,159
Special funding - Pension	**19,884**	-
Special funding - Cash deficiency and other	**15,454**	22,400
Special funding - Pay-off Lines of Credit	**13,116**	-
Special funding - Ontera	**2,115**	-
Marine Services (Moosonee)	**$ 49**	$ 41
	75,715	43,600
National Transportation Agency of Canada:		
Current year's operations	**2,500**	2,500
	$ 78,215	$ 46,100

10. Internally Restricted Net Assets – Reserve for Self Insurance

The Commission follows the policy of self-insuring for damages from rolling stock derailments and for cargo damage. Annually the Commission transfers $100 from unrestricted net assets to the Reserve for Self Insurance (the "Reserve") to finance such costs. Interest earned on the reserve balance and claims expensed in the reserve balance are recorded as revenue and expenses in the consolidated statement of operations then transferred to/from the Reserve.

Periodically, the Commission borrows cash from the Reserve for its temporary use. The Commission pays interest to the Reserve at the bank's prime rate less 1.75% on these temporary borrowings.

11. Contingencies

Statement of claim

In the normal course of its operations, various statements of claim have been issued against the Commission claiming damages for personal injury, property damages, environmental actions and employment-related issues. Damages, if any, cannot be estimated at this time and in any event the Commission is of the opinion that these claims are unfounded or covered by insurance after application of a $2,000 deductible. Should any loss result, it would be charged to the consolidated statement of operations when the amount is ascertained.

12. Commitments

The Commission is also obligated to certain job guarantee agreements with a significant number of its unionized employees. To the extent of any actual claims under these agreements, the Commission would maintain provisions for such items. Due to the nature of these agreements, the maximum exposure for future payments may be material. However, such exposure cannot be reasonably determined and no provision has been made as at the year-end date.

13. Economic Dependence

During 2012, the Rail Services Division derived 39% (2011 - 43%) of its revenue from three major customers.

14. Transitional Adjustments:

(a) Net assets:

The following table summarizes the impact of the transition to GNPO accounting standards on the Commission's net assets as of April 1, 2010:

Unrestricted net assets:	
As previously reported under Canadian generally accepted accounting principles, March 31, 2010	$ 158,645
Transitional adjustment to accrued benefit asset	(38,041)
Transitional adjustment to accrued non-pension benefit obligation	3,168
Restated - April 1, 2010	**$ 123,772**

(b) Excess of revenue over expenses:

As a result the retrospective application of GNPO accounting standards, the Commission recorded the following adjustments to deficiency of revenue over expenses for the year ended March 31, 2011:

Excess (deficiency) of revenue over expenses:	
As previously reported under Canadian generally accounting principles for year ended March 31, 2011	$ (10,814)
Decrease in employee future benefit expense as a result of transitional adjustments	9,783
Restated, deficiency of revenue over expenses	**$ (1,031)**

15. Comparative Figures

Prior year's figures have been reclassified where necessary to conform to the current year's presentation.

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